



# EMPLOYER BULLETIN

## New law changes contribution rates and employer contributions; modifies ERO

June 2005

On June 1, 2005, Public Act 94-0004, which was formerly Senate Bill 27, was signed into law. This legislation contained a number of provisions that will impact TRS-covered employers.

### Increase in member contribution rate

Beginning with the 2005-06 school year, the member TRS contribution rate will increase from 9 percent to 9.4 percent for all members.

Contribution rates are summarized below.

Contribution Type	2004-05	2005-06
<b>TRS contributions</b>		
<b>Member TRS retirement contribution</b>	<b>9.00%</b>	<b>9.40%</b>
Employer TRS retirement contribution	0.58%	0.58%
<b>Employer TRS contribution on federally funded salary</b>	<b>10.50%</b>	<b>*7.06%</b>
<b>THIS Fund contributions</b>		
Member THIS Fund contribution	0.75%	0.80%
Employer THIS Fund contribution	0.50%	0.60%

*\*See explanation on following page under "Decrease in federal contribution rate."*

### Accrual basis

The new 9.4 percent member TRS contribution rate, as well as the other new rates, apply to salaries earned beginning July 1, 2005. You should use the new rate for administrators and summer school teachers whose July checks are payment for work performed in July. To clarify, use the new rate when you issue the first pay-

check for salary earned and reportable in the 2005-06 school year. For teachers whose summer checks are payment for work completed during the 2004-05 school year, do **not** use the new 9.4 percent rate.

### Tax exemption

The 9.4 percent member TRS contribution is tax-sheltered. You must exclude TRS and THIS Fund member contributions from the employee's taxable income regardless of who actually pays the contributions.

### Board-paid TRS factor

Contributions are calculated on the member's creditable earnings. When the employer pays any portion of the member's TRS contribution as a benefit, the board-paid TRS contribution must be included in creditable earnings, thus creating a compounding effect. If the board agrees to pay the full 9.4 percent member TRS contribution, a factor of 1.103753 must be used to calculate the member's creditable earnings. To calculate the contribution amount, a factor of .103753 is used.

If an employer continues to pay 9 percent of the member TRS contribution as a benefit and deducts the additional 0.4 percent from the member's salary, then the employer will continue to use the same 9 percent factor (1.098901). If the board pays any other portion of the member's contribution but not the full 9.4 percent, please refer to Chapter 3, page 15 of the *Employer Guide* for the appropriate factor.

### Salary reduction method

Under this method, the 9.4 percent member TRS contributions are withheld from the member's gross pay. The contributions are then remitted to TRS by the employer.



**Example** – member pays the 9.4 percent retirement contribution.

	<u>Member TRS</u>	<u>Member THIS</u>
Creditable earnings reportable to TRS	\$10,000	\$10,000
Contribution rate	<u>x .094</u>	<u>x .008</u>
Contributions to be remitted	<u>\$ 940</u>	<u>\$ 80</u>

### Salary add-on method

Using this method, the employer agrees to pay the retirement contribution in addition to the member's salary. This results in an employer cash outlay in excess of the member's salary. The contribution paid by the employer must be added to the member's salary amount to obtain creditable earnings. Creditable earnings can be computed by multiplying the member's salary by an add-on factor.

**Example** – employer pays the full 9.4 percent retirement contribution

Base salary per salary schedule	\$10,000.00
Add-on factor	<u>x 1.103753</u>
Creditable earnings reportable to TRS	<u>\$11,037.53</u>

	<u>Member TRS</u>	<u>Member THIS</u>
Creditable earnings reportable to TRS	\$11,037.53	\$11,037.53
Contribution rate	<u>x .094</u>	<u>x .008</u>
Contributions to be remitted	<u>\$1,037.53</u>	<u>\$88.30</u>

**Example** – employer pays 9 percent of the retirement contribution and the member pays the additional 0.4 percent.

Base salary per salary schedule	\$10,000.00
Add-on factor*	<u>x 1.098901</u>
Creditable earnings reportable to TRS	<u>\$10,989.01</u>

\* from page 15, Chapter 3, TRS Employer Guide

	<u>Member TRS</u>	<u>Member THIS</u>
Creditable earnings reportable to TRS	\$10,989.01	\$10,989.01
Contribution rate	<u>x .094</u>	<u>x .008</u>
Contributions to be remitted	<u>\$1,032.97</u>	<u>\$ 87.91</u>
Portion paid by the employer	\$989.01	(10,989.01 x .09)
Portion deducted from gross pay	<u>\$43.96</u>	(10,989.01 x .004)
	<u>\$1,032.97</u>	

### Remittance procedures

There are no changes in remittance procedures or contribution due dates. All TRS and THIS Fund contributions must be remitted by Electronic Funds Transfer (EFT). If you are accessing the EFT system by telephone, select option 1 to remit 9.4 percent member TRS contributions. If using the Web-based remittance system, select "Member and Employer Contribution" to remit 9.4 percent contributions. Enter the 9.4 percent contribution amount under "Total Member TRS Contribution."

### Decrease in federal contribution rate

Due to the substantial reduction in the appropriation amount to TRS from the State of Illinois in fiscal year 2006, the federal contribution rate will be 7.06 percent. This is a change from the 14 percent rate that was provided to you in previous Employer Bulletins. Effective July 1, 2005, the employer TRS contribution on salaries paid from federal funds will be 7.06 percent for earnings in the 2005-06 school year.

### Early Retirement Option

Members who retire between the ages of 55 and 60 with at least 20 but fewer than 35 years of service credit are subject to a reduction in retirement benefits. Members may avoid the reduction in benefits by electing the Early Retirement Option (ERO). If the member qualifies for ERO, both the member and the employer must make a one-time, lump-sum contribution to TRS. The

ERO contribution amounts are a percentage of the highest salary rate used to calculate the member's final average salary.

### **Current ERO**

The current ERO expires June 30, 2005. Under the current provisions, the employer's ERO cost is calculated as 20 percent of the highest salary multiplied by the number of years the member is under age 60. The member's ERO cost is currently calculated as the lesser of 7 percent of highest salary multiplied by the number of years the member is under age 60, or 7 percent of highest salary multiplied by the number of years under 35 years of service credit. If the member achieves at least 34 years of service credit, the member and employer ERO costs are waived.

### **Pipeline ERO**

Members who qualify for the Pipeline ERO may retire after June 30, 2005 under the current ERO provisions without modification. Members are considered to be in the Pipeline ERO if they have met all of the following requirements:

- On or before June 1, 2005, members notified their employers in writing of their intention to retire under the terms of their contract or collective bargaining agreement.
- Members have an effective date of retirement on or after July 1, 2005 and on or before July 1, 2007.

For members who meet the Pipeline ERO requirements, the member and employer ERO contribution rates will remain 7 percent and 20 percent, respectively. Member and employer contribution rates will be waived for Pipeline ERO members with 34 years of service credit.

A superintendent mailing contains this bulletin and a certification for superintendents to attest members who are eligible for the Pipeline ERO.

### **Modified ERO**

A modified ERO goes into effect July 1, 2005 for those members who do not qualify for the Pipeline ERO. Under the modified ERO, the contribution waiver for members with 34 years of service is eliminated. Member and employer contributions must be paid for members under the age of 60 who retire with less than 35 years of service credit.

The employer must permit at least 10 percent of ERO eligible employees to exercise the Modified ERO option. In all cases, if a limit is imposed, eligibility will be based on seniority in the service of the employer (not total TRS credit).

ERO contributions will still be based on the highest salary rate used to calculate the member's final average salary, but the percentage rates are higher under the modified ERO. The employer's ERO cost will be calculated as 23.5 percent of the highest salary multiplied by the number of years the member is under age 60. The member's ERO cost will be calculated as the lesser of 11.5 percent of highest salary multiplied by the number of years the member is under age 60, or 11.5 percent of highest salary multiplied by the number of years under 35 years of service credit.

Beginning in 2012, TRS actuaries will recommend ERO contribution rates every five years to ensure the program remains cost-neutral. The legislative Commission on Government Forecasting and Accountability will review the ERO rates and make a recommendation to the General Assembly. The General Assembly may either accept the new rates or allow ERO to sunset.

The modified ERO is funded in part by the 0.4 percent increase in member TRS contributions.

If a member did not receive a retirement annuity calculated using ERO, the contributions will be refunded without interest:

- within 120 days of when a member's non-ERO annuity commences;
- if the member claims a refund that terminates membership in TRS;
- if the member dies without having begun to receive a retirement annuity; or
- if the ERO program is terminated in the future as a result of the reviews of contribution rates set to begin in 2012.

### **Sick leave**

Members will continue to be eligible to earn up to two years of service credit for sick leave. Employers will pay a charge for sick leave days granted in excess of the member's normal annual allotment and used for service credit at retire-

ment. The charge does not apply to sick leave granted prior to June 1, 2005 or under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005.

All existing provisions regarding sick leave remain in effect. To be reportable for service credit, sick leave days must be unused, uncompensated and available for use. Employers must continue to apply the 3-step formula to determine if granted days are available for use and reportable to TRS for service credit.

TRS is preparing examples to illustrate the employer cost for granted sick leave days and how the cost will be billed.

## End-of-career salary increases over 6 percent

Employers will be required to pay the cost of pension benefits resulting from end-of-career salary increases over 6 percent. This cost must be paid in a lump sum at the time the member retires. The charge does not apply to salary increases awarded under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005.

TRS will continue to recognize the full salary as creditable earnings. Salary increases up to 20 percent per year with the same employer will still be used in the calculation of the member's final average salary.

TRS is currently preparing examples to illustrate the employer cost for end-of-career salary increases in excess of 6 percent and how the cost will be billed.

## Other changes

### Money purchase benefit

For persons who become TRS members after June 30, 2005, the money purchase option (often referred to as the "actuarial benefit") is eliminated. For current members, this retirement benefit is based on member contributions plus interest, plus an employer contribution, and is paid if it is higher than the 4-step or 2.2 formula benefit.

### TRS funding

The legislation reduced the state contributions to TRS by approximately 50 percent for fiscal years 2006 and 2007. The reductions are about \$500 million each year, for a total loss of over \$1 billion. Despite these funding reductions, TRS will pay benefits on time without any reduction or loss of future 3 percent annual increases. The Illinois State Constitution continues to guarantee all benefits provided by the Illinois Pension Code for current members and annuitants.

### Future benefit increases

In the future, any new benefit must be fully funded by an identified funding source. New benefits will sunset after five years if not re-authorized by law. If a new benefit is not certified as fully funded by the Public Pension Division of the Department of Insurance, it will expire at the end of the fiscal year unless corrective action is enacted into law.

### Advisory Commission

A 15-member Advisory Commission on Pension Benefits has been created to consider and make recommendations concerning changing the age and service requirements for retirement, automatic annual increases in benefits, employee contribution rates and other pension-related issues. The commission will include eight members appointed by the Governor and four members appointed by legislative leaders. The executive directors of TRS, SURS and SERS will also be members. The commission is to report its findings and recommendations to the Governor and General Assembly on or before November 1, 2005.

## Questions

Employers may contact TRS at (888) 877-0890. Questions regarding creditable earnings, reporting sick leave days or the calculation of contributions should be directed to the Employer Services Department (option 1). Questions regarding billing and remittance procedures should be directed to the Accounting Department (option 2).

Members who have questions should call the Member Services Department at (800) 877-7896.

*This publication is only a summary of changes and is not intended to modify the terms of the law. In the event of any inconsistencies between this Employer Bulletin and the law, the law controls.*